

FinTech regulatory developments

BIS: special chapter on CBDCs from Annual Economic Report

On 23 June 2021, the BIS pre-released a special chapter on [CBDCs: an Opportunity for the Monetary System](#) as part of its Annual Economic Report 2021. Central bank digital currencies (CBDCs)

represent a unique opportunity to design a technologically advanced representation of central bank money, one that offers the unique features of finality, liquidity and integrity. Such currencies could form the backbone of a highly efficient new digital payment system by enabling broad access and providing strong data governance and privacy standards based on digital ID. To realise the full potential of CBDCs for more efficient cross-border payments, international collaboration will be paramount. Cooperation on CBDC designs will also open up new ways for central banks to counter foreign currency substitution and strengthen monetary sovereignty.

ECB: opinion on proposed Regulation on digital operational resilience and proposed pilot regime for market infrastructures based on DLT

On 22 June 2021, the ECB published its [opinion](#) on the EU Commission's proposal for a Regulation on a pilot regime for market infrastructures based on distributed ledger technology (DLT). The ECB is overall supportive of the proposal though raised observations related to monetary policy, oversight and systemic/financial stability and prudential supervisory aspects. On 4 June 2021, the ECB also published its [opinion](#) on the EU Commission's proposed Regulation on digital operational resilience (DORA) and proposed regulation. The ECB welcomes the proposed regulation, which aims to enhance the cyber security and operational resilience of the financial sector. The ECB makes specific observations on oversight and securities clearing and settlement, prudential supervision, ICT risk management, incident reporting, operational resilience testing, and ICT third-party risk.

BIS: launch of Innovation Hub Nordic and London Centres

On 16 June 2021, the BIS, in partnership with Danmarks Nationalbank, Central Bank of Iceland, Norges Bank and Sveriges Riksbank, [launched](#) the BIS Innovation Hub Nordic Centre in Stockholm. This follows the recent [launch](#) of the Innovation Hub London Centre (11 June 2021). Further Innovation Centres are also expected to be launched in Toronto and Frankfurt/Paris. The BIS Innovation Hub's work programme is currently focused on six areas: suptech and regtech; next generation financial market infrastructures; central bank digital currencies; open finance; cyber security;



and green finance. The [BIS Innovation Hub](#) was established in 2019 by the BIS to identify and develop in-depth insights into critical trends in financial technology of relevance to central banks, to explore the development of public goods to enhance the functioning of the global financial system, and to serve as a focal point for a network of central bank experts on innovation.

BIS: paper on CBDCs beyond borders

On 11 June 2021, the BIS published its paper on [CBDCs Beyond Borders: Results from a Survey of Central Banks](#). Based on a survey of 50 central banks in the first quarter of 2021, the paper explores initial thinking on the cross-border use of CBDCs. While most central banks have yet to take a firm decision on issuing a CBDC, the survey responses show a tentative inclination towards allowing use of a future CBDC by tourists and other non-residents domestically. They have a cautious approach to allowing use of a CBDC beyond their own jurisdiction. Concerns about the economic and monetary implications of cross-border CBDC use and about private sector global stablecoins are taken seriously. At the wholesale level, 28% of surveyed central banks are considering options to make CBDCs interoperable by forming multi-CBDC arrangements. This involves arrangements that enhance compatibility, interlink or even integrate multiple CBDCs into a single payments system. Finally, almost 14% of respondents are considering an active role for the central bank in FX conversion.

BIS, SNB, BdF: collaboration in wCBDC experiment

On 10 June 2021, the BIS Innovation Hub, the Bank of France and the Swiss National Bank [announced](#) that, together with a private sector consortium led by Accenture, they will experiment using wholesale CBDC (wCBDC) for cross-border settlement. Known as Project Jura, the experiment will explore cross-border settlement with two wCBDCs and a French digital financial instrument on a distributed ledger technology (DLT) platform. It will involve the exchange of the financial instrument against a euro wCBDC through a delivery versus payment (DvP) settlement mechanism and the exchange of a euro wCBDC against a Swiss franc

wCBDC through a payment versus payment (PvP) settlement mechanism. These transactions will be settled between banks domiciled in France and in Switzerland, respectively. Project Jura expands on central bank experimentation investigating the effectiveness of wCBDC for cross-border settlement.

BCBS: consultation on prudential treatment of banks' cryptoasset exposures

On 10 June 2021, the Basel Committee on Banking Supervision [launched](#) its consultation on preliminary proposals for the prudential treatment of banks' cryptoasset exposures. The consultation builds on the contents of the Committee's 2019 [discussion paper](#) and responses received from a broad range of stakeholders, as well as ongoing initiatives undertaken by the international community. Given the rapidly evolving nature of this asset class, the Committee is of the view that policy development for cryptoasset exposures is likely to be an iterative process, involving more than one consultation. The Committee will continue to coordinate with other international organisations that are developing their approaches to cryptoassets. The consultation period ends 10 September 2021.

BIS: working paper on CBDC

On 8 June 2021, the BIS published its working paper on [Central Bank Digital Currency: the Quest for Minimally Invasive Technology](#). The paper discusses the range of proposed CBDC architectures, how they could complement existing payment options, and what they imply for the financial system and the central bank of the future. It sets out the requirements for a "minimally invasive" CBDC design – one that upgrades money to current needs without disrupting the proven two-tier architecture of the monetary system, which involves both the private and public sectors. The paper finds that technological developments inspired by popular cryptocurrency systems – based on anonymity and lacking a central authority – do not meet the requirements for a retail CBDC. Instead, digital banknotes that run on "intermediated" or "hybrid" CBDC architectures show promise. Supported with technology to facilitate record-keeping by private sector entities of direct claims on the central bank, their economic design should emphasise the use of the CBDC as a medium of exchange. At the same time, it will need to limit its appeal as a savings vehicle.

BIS: working paper on money, technology and banking

On 7 June 2021, the BIS published its working paper on [Money, Technology and Banking: What Lessons can China Teach the Rest of the World?](#) Technology companies entering the financial services industry have become a global phenomenon over the past decade. Using the rise of two big techs in China as a foundation for analysis, the paper examines the key factors that have driven the development

in China and whether such factors are applicable elsewhere. The paper takes a historical approach in examining favourable factors that contributed to the strong growth of big techs in China, and how regulators struck a balance between nurturing financial innovations and keeping emerging stability risks at bay.

ECB: annual report of the international role of the euro: special feature on CBDC issuance

On 2 June 2021, the ECB published its annual report on [The International Role of the Euro](#), including a special feature examining the impacts of an issuance of CBDC. The special feature stresses that the global appeal of currencies depends on fundamental economic forces that digitalisation is unlikely to alter. However, characteristics that are specific to digital means of payment, including safety, low transaction costs and bundling effects, could promote the international adoption of a currency. These features may combine to create positive feedback loops in the use of a currency as a means of payment and store of value and thus have effects on its global appeal. Moreover, the specific design features of a CBDC would be important for its global outreach and, ultimately, the international role of the currency in which it is denominated. Fundamental forces, such as the stability of economic fundamentals and size, remain the most important factors for international currency status.

European Parliament: paper on AI and capital market flows

On 28 May 2021, the European Parliament published its paper on [Artificial Intelligence Market and Capital Flows: Artificial Intelligence and the Financial Sector at Crossroads](#). The paper studies the transformation that Artificial Intelligence (AI) is bringing to the financial sector and how this sector can contribute to developments of AI applications. The study addresses the contribution of AI to a more efficient, open, and inclusive financial sector and the challenges of the AI transformation, and it provides recommendations for policies and regulations of AI and financial services.

ESMA: call for evidence on digital finance

On 25 May 2021, ESMA [published](#) its call for evidence on digital finance following the EU Commission's [digital finance package](#) and [request](#) to the European Supervisory Authorities to provide technical advice on necessary adaptations to the existing legislative framework with a view to embrace digital finance in the EU. Technological innovation is transforming financial services at an unprecedented speed, by facilitating new business models and services and the entrance of new market participants. COVID-19 is accelerating this shift and the digitalisation of financial services. These changes bring a host of opportunities, including the prospect of better financial services for

businesses and consumers and greater financial inclusion. Yet, they raise challenges as well, as they can contribute to introduce or exacerbate new risks. Also, the existing regulatory and supervisory framework may not fully capture and address these new developments. The consultation period ends on 1 August 2021.

BIS: working paper on the digitisation of money

On 19 May 2021, the BIS published its working paper on [The Digitalisation of Money](#). The paper discusses the key questions and economic implications of digital currencies. It discusses how digital currencies could unbundle the traditional roles of money, lead to digital currency areas that cover multiple countries, and move payments away from banks' credit provision towards digital platforms. These changes could influence the transmission of monetary policy and necessitate the introduction of central bank digital currencies (CBDCs). First, digital currencies will unbundle the traditional functions served by money creating fiercer competition among currencies. Second, digital money issuers will try to differentiate their products by re-bundling monetary functions. In combination with digital connectedness, new currencies could lead to digital currency areas linking the currency to the use of a particular digital network rather than to a specific country. Third, digital currencies affect the competition between private and public money. Cash could disappear, and payments could centre around digital platforms rather than banks' credit provision. Governments may need to offer CBDCs in order to retain monetary independence.

BIS Innovation Hub and Italian G20 Presidency: G20 TechSprint 2021 Initiative

On 6 May 2021, the BIS Innovation Hub and the Bank of Italy, within the Italian G20 Presidency, [launched](#) the [G20 TechSprint 2021 Initiative](#), an international contest to search for innovative solutions to resolve operational problems in green and sustainable finance. The BIS Innovation Hub and the Italian G20 Presidency published three high-priority operational problems and invite private firms to develop innovative technological solutions. The problem statements identify the following challenges, highlighted by submissions from G20 finance ministries and central banks: (i) Data collection, verification and sharing; (ii) Analysis and assessment of transition and physical climate-related risks; (iii) Better connecting projects and investors. Winners for each problem statement are to be announced in October 2021.

EDPS: opinion on proposed regulation on digital operational resilience and proposed pilot regime for market infrastructures based on DLT

On 11 May 2021, the European Data Protection Supervisor (EDPS) published its [opinion](#) on the EU Commission's proposed regulation on digital operational resilience (DORA) and amending regulations. On 27 April 2021, the EDPS also published its [opinion](#) on the European Commission's proposed pilot regime for market infrastructures based on DLT. The EDPS highlights that the protection of personal data does not constitute an obstacle to innovation and in particular, for the development of new technologies in the financial sector.

EU Commission: proposal for Artificial Intelligence Act and coordinated plan

On 21 April 2021, the European Commission published its [statement](#) on proposed new rules and actions relating to AI. The Commission's proposal includes a legal framework on AI ([Artificial Intelligence Act](#)) and a [Coordinated Plan](#) outlining the necessary policy changes and investment at Member States level. The Commission puts forward the proposed regulatory framework on Artificial Intelligence with the specific objectives to (i) ensure that AI systems placed on the Union market and used are safe and respect existing law on fundamental rights and Union values; (ii) ensure legal certainty to facilitate investment and innovation in AI; (iii) enhance governance and effective enforcement of existing law on fundamental rights and safety requirements applicable to AI systems; (iv) facilitate the development of a single market for lawful, safe and trustworthy AI applications and prevent market fragmentation. The adopted Act is [open for feedback](#) until 6 August 2021.

ECB: report on the digital euro consultation

On 14 April 2021, the ECB [published](#) the results of the public consultation on a digital euro. The report sets out the results of the analyses of the 8,221 responses submitted by participants and will serve as important input for the ECB's Governing Council when it decides in mid-2021 whether to launch a formal investigation phase in view of a possible launch of a digital euro. When identifying the whole possible package of most preferable options, citizens participating in the consultation consistently opt for privacy, security, usability throughout the euro area, absence of additional costs and usability offline. Among the main challenges associated with a digital euro, citizen respondents identify those related to privacy and, especially when considering accessibility, simplicity in its use as a means of payment. Professional respondents identify similar challenges, as well as additional ones related to poor internet connectivity in some areas.

ECB: report on the use of DLT in post-trade processes

On 12 April 2021, the ECB published its report on [The Use of DLT in Post-Trade Processes](#), to which ICMA contributed through the ECB's Advisory Groups on Market Infrastructures for Securities and Collateral and for Payments (jointly the FinTech Taskforce). The report categorises securities issuance and post-trade processes into models depending on how DLT is used in each case, drawing implications for the use of DLT at different stages of the securities lifecycle, from issuance to custody and settlement. Various institutional actors and market players are currently experimenting with DLT with a view to potentially enhancing efficiency and reducing costs. However, the lack of common practices and standards for its adoption could increase the degree of market fragmentation. To prevent further market fragmentation, the adoption of DLT-based solutions should be based on common practices and standards that enable DLT systems to interact with both each other and conventional systems. In parallel, a consolidated approach based on regulatory licences and conduct of business rules is needed to ensure sound governance of security post-trade services. Such an approach would create incentives for the wide-scale adoption of DLT.



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